

EMPOWERMENT OF THE POOR

ELIMINATING THE APARTHEID PRACTICED BY FINANCIAL INSTITUTIONS

BY MUHAMMAD YUNUS

My efforts to empower Third World poor began, appropriately enough, with an independence movement—the independence of Bangladesh. In 1971, my homeland was confronted with a war, bloodshed, and a tremendous amount of misery. During that war, I was teaching in the United States. But after nine months of fighting, Bangladesh became independent and I went back, thinking I would join the people in the rebuilding process and help create the nation of our dreams. As the days went by, however, the situation in Bangladesh did not improve. It started sliding down fast, and we ended up with a famine at the end of 1974.

By this time, I was teaching at Chittagong University on the outskirts of Chittagong City, Bangladesh, and I felt terrible. There, I taught economics in the classroom with all the enthusiasm of a brand new Ph.D. from the United States. I felt as if I knew everything, that I had all the solutions. But then I would walk out of the classroom and see skeletons all around me, people waiting to die. There are many, many ways to die, but none is so cruel as to die of hunger; death inches toward you, you see it, and you feel helpless because you can't find one handful of food to put inside your mouth. And the world moves on.

I couldn't cope with this daily tragedy. It made me realize that, whatever I had learned, whatever I was teaching, was all make-believe; it had no meaning for people's lives. So I started trying to find out why the people in the village next door to the university were dying of hunger. Was there anything I could do as a human being to delay the process, to stop it, even for one person?

I traveled around the village and talked with its people. Soon, all my academic arrogance disappeared. I realized that, as an academic, I wasn't really solving global problems; I wasn't

even solving national problems. I decided to abandon my bird's-eye view of the world, which allowed me to look at problems from above, from my ivory tower in the sky. I assumed, instead, the worm's-eye view and tried to probe whatever came right in front of me—smelling it, touching it, seeing if I could do something to improve it. Trying to involve myself in whatever capacity I could, I learned many things in my travels.

But it was one particular incident that pointed me in the right direction. I met a woman who was making bamboo stools. After a long discussion, I discovered that her profit for the stools averaged the equivalent of two American pennies a day. I could not believe anyone could work so hard, create such beautiful bamboo stools, and make so little. She explained that she didn't have the money to buy the bamboo that goes into the stools; she had to borrow from the trader, who required that she sell the product to him alone and at a price he decides. She was virtually bonded labor to that person. And how much did the bamboo cost? She said about twenty cents; if it was good bamboo, twenty-five cents. I said, "My god, people suffer for twenty cents and there's nothing anyone can do about it?"

Thinking it over, I wondered whether I should just give her the twenty cents. But then I came up with a better idea: I could make a list of people in the village who needed that kind of money to be self-employed. After several more days of traveling, a student of mine and I came up with a list of forty-two such people. When I added up the total dollars they needed, I experienced the biggest shock of my life: it added up to \$27! I felt ashamed to be a member of a society that could not provide \$27 to forty-two hard-working, skilled human beings. To escape my shame, I took the \$27 out of my pocket and gave it to my student and said, "Take this money. Give it to those forty-two



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people we met and tell them this is a loan, which they can pay back whenever they are ready. In the meantime, they can sell their product wherever they get a good price."

The people of the village were quite excited to receive the money; such a thing had never happened to them before. Seeing such excitement made me wonder what more I could do to help them. Should I continue providing them money or should I arrange for them to secure their own funds? I thought of the bank located on campus. In a meeting with the manager, I suggested that his bank lend the money to the forty-two people I had met.

"You're crazy!" he said. "It's impossible! How can you lend money to the poor people? They're not credit worthy."

"At least give it a try, find out," I pleaded with him. "It's only a small amount of money."

"No," he insisted, "our rules don't permit it. We cannot offer them funds, and such a tiny amount isn't worth giving." He suggested that I, instead, meet with higher officials in the Bangladesh banking hierarchy; maybe they could find a way to provide such business loans.

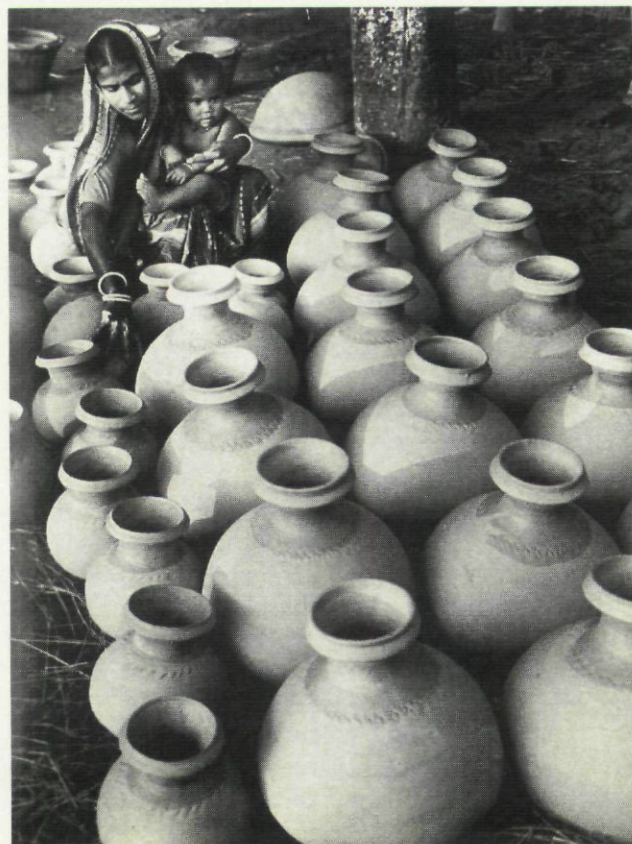
I took his advice and was turned down once again—with the same explanation. Finally, after several days of getting the runaround, I offered myself as a guarantor of the loans; I would sign whatever papers the bank required, but then I'd give the money to whomever I chose for whatever business venture they chose. The bank warned me that such poor people would never pay me back, but I took the chance. And as it turned out, the people paid me back every cent; nothing was owed. Excited, I went back to the bank manager and declared, "Look! They paid me back, and there are no problems."

"No," one high-ranking banking official countered, "they're just fooling you. Soon they'll take more money and never give it back." I accepted his challenge and gave more money, and they paid me back

again. Returning to the banking official to report my success, I heard him say, "Well, maybe you can do it in one village, but it won't work in two villages." So I hurried out to try it in two villages, and it worked as well as before.

Soon, a race developed between the banking community and me: bankers kept advancing larger numbers—five villages, twenty villages, hundreds of villages—expecting that my stream of successes would eventually be broken. But I tried my approach in five villages, twenty villages, hundreds of villages, until I thought those bankers couldn't deny my results. Yet, they still would not accept my successes. The bankers had been trained to believe that poor people are not capable of running profitable businesses. Their minds were blind to the results they had been shown. Luckily, my mind had not been trained that way.

Finally I thought, why am I trying to convince *them*? I'm already convinced that poor people can be advanced business loans and will pay them back. So why don't I just set up a separate bank of my own? I wrote up a proposal and went to the government for permission. It took two years of convincing.



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"Why should you have a bank for the poor people?" the government officials asked. "There are a lot of banks already underway that are having trouble. Why do you want to create more problems for us?"

"I don't want money from you," I clarified. "All I want is permission to set up a bank." At last, in 1983, Grameen Bank—a formal, independent financial institution—was opened. I founded it as an alternative to the current banking system, which I found to be biased against both the poor and women.

Traditional bankers got angry with me, asking, "Why do you

wait for the day they would receive their loan. It was this waiting that prompted many women to doubt whether they should go through with it. They spent the night before sleepless, tossing and turning, telling themselves that they had already created problems for their families—just being a woman—and that they didn't want to create more by borrowing money they may not be able to pay back. But by morning, with the help of friends and much internal struggle, they decided to go through with their first business loan—about \$12 or \$15.

Many women couldn't believe someone trusted them

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accuse us of being biased against women?"

I answered, "You just give me your list of all the borrowers in all the banks. I'll bet you that not even one percent of the borrowers are women. So what else would you call it?"

Recognizing this bias, I wanted to make sure that women made up half of all Grameen's borrowers. But it wasn't easy to persuade the women in Bangladesh to join the bank. A man isn't even allowed to address a woman in her village.

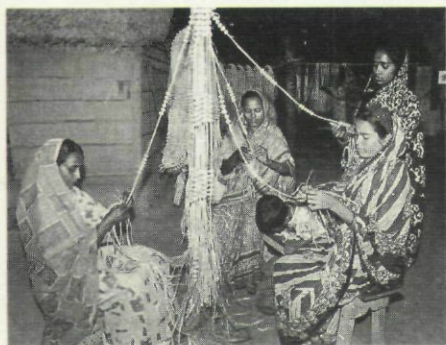
The usual response I heard was, "No, I don't need money. Give it to my husband." We kept telling them that we understood their husband could take it but that we wanted to give the money to the women if they needed it for a business idea. Yet, they would say, "No, I don't have an idea." And that was repeated in village after village, by woman after woman. It took a lot of convincing before any woman could believe that she, herself, could use a loan to earn income. All we needed was patience. We asked that women borrow from Grameen in groups of five and, once we were able to convince one woman, our work was half done. She then was an example that convinced her friends and then her friends' families and so on.

Getting the women of Bangladesh to see themselves as family "breadwinners" represented an enormous leap—for us and for them. But still another hurdle remained: they had to

enough to loan them such an amount of money. As tears rolled down their cheeks, they promised to work very hard and make sure they paid back every penny of it. And they did. Grameen requires tiny weekly payments so that, over the course of one year, business loans can be paid back with interest. By the time the loans are paid off, the women are completely different people. They have explored themselves, found themselves. Others may have told them they were no good, but on the day a loan is paid off, the women feel as though they can take care of themselves and their families.

We noticed so many good things happening in the families where the woman was the borrower instead of the man. So we focused more and more on the women, not just 50 percent. Today, Grameen Bank works in 36,000 villages in Bangladesh; has 2.1 million borrowers, 94 percent of them women; and employs 12,000 people. The bank completed its first billion dollars in loans four years ago, and we celebrated it. A bank that starts its journey giving \$27 in loans to forty-two people and comes all the way to a billion dollars in loans is cause for celebration. We felt good to have proven all those banking officials wrong.

The next year, Grameen gave \$300 million in loans, followed by more than \$400 million the following year, and more



than \$400 million last year. Now we lend \$1.3 million each working day and will approach our second billion dollars in loans at the end of the year. And when we started we had no experience running such an institution. I was just a teacher at the university; I had never run any corporation or business of any kind. Likewise for my employees, they had no experience. Most of them were my students who were picked along the way. Now we find out that the combined total of loans given to rural residents for all the other banks in Bangladesh doesn't add up to \$400 million.

I went back to the officials who are now my banking colleagues and admonished them: "You said poor people are not loan worthy. But for twenty years, they've been showing every day who is worthy and who isn't. It's been the rich people in Bangladesh who haven't paid back their loans because it's been only the rich people who were granted them. With Grameen Bank, it's the poor people who are paying back." Our recovery rate has remained more than 98 percent since we began. So my question now is, are the banks people worthy?

Researchers say that there must be some trick to it—I can't be reporting the right figures, I'm hiding things. But when they investigate our records, they see the same numbers. They come in with hostility and leave as great admirers of our bank. Researchers now say that the income of all our borrowers is steadily increasing. The World Bank reports that one-third of our borrowers have clearly risen above the poverty line, another one-third are a matter of months or a couple of years away from this achievement, and the remaining one-third are at different levels below that. I say, if you can run a bank, lend money, get your money back, cover all your costs, make a profit, and get people out of poverty—what else do you want?

One of the topics discussed at the 1994 United Nations Conference on Population and Development held in Cairo, Egypt, was Grameen Bank. *Business Week* ran a cover story on the Cairo conference and half of it was devoted to our bank. The magazine reported that the adoption of family planning practices within Grameen families is twice as high as the national average. Though we are not a family planning organization, it nonetheless makes sense that, when people start making decisions about their lives, they also start making decisions about the size of their families. Sanitation in Grameen families is also much better than in non-Grameen families; likewise for nutrition and housing. The bank also provides housing loans of \$300 each—more than 350 thousand of them so far, with no difficulty getting our money back. With that \$300, a family can build a

house with a tin roof, concrete columns, and a sanitary latrine that, by Bangladesh standards, feels like a royal palace. Never in their lives had they thought they could own such a house.

Are poor people loan worthy? Does the world still wait for evidence? Does it care? I keep saying that poverty is not created by poor people; poverty is created by the institutions we have built around us. We must go back to the drawing board to redesign those institutions so they do not discriminate against the poor as they do now. We have heard about apartheid and felt terrible about it, but we don't seem to feel anything about the apartheid practiced by financial institutions. Why should some potential entrepreneurs be rejected by a bank simply because they are *thought* to be unworthy of a loan? By the *evidence*, it is clear that the opposite is true.

It is the responsibility of all societies to ensure human dignity for every member of that society, but we haven't done very well in that endeavor. We talk about human rights, but we don't link human rights with poverty. Poverty is the denial of human rights. And it's not just the denial of one human right—put together all the many ways our society denies human rights and that spells *poverty*.

Grameen-type programs are now popping up in many countries. To my knowledge, fifty-six countries—including the United States—are involved in such endeavors. But the effort doesn't have the momentum it needs. There are 1.3 billion people on this planet who earn the equivalent of one American dollar or less a day, who suffer extreme poverty. If we create institutions capable of providing business loans to the poor for self-employment, they will see the same success we have seen in Bangladesh through Grameen Bank. I see no reason why anyone in the world should be poor.

The 1995 Micro-Credit Summit held in Washington, D.C., declared as its goal loans for self-employment to 100 million of the poorest families on the planet by the year 2005, preferably through the women in those families. My fondest dream is that some day our next generations—our children and grandchildren—will have to go to a museum to see what poverty was like. They will accuse us and our ancestors of letting poverty continue until the twenty-first century. But by taking action now, the next millennium will not have to suffer the same fate as this current one.

Muhammad Yunus is managing director of Grameen Bank in Bangladesh. This article is adapted from his speech at the State of the World Forum in San Francisco in October 1996.

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